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SUBJECT: INDONESIA TRADE AND INVESTMENT HIGHLIGHTS - MAY-JUNE 2006

¶1. Summary: Minister of Trade Mari Pangestu met with Parliament on June 7 and 22 to outline key provisions of the Government of Indonesia's (GOI) draft investment law. Investment Coordinating Board (BKPM) figures showed foreign investment approvals dropped to USD 3.66 billion for the first five months of 2005 from 4.87 billion during the same period in 2004, a decline of 33.1 percent YoY. Indonesia and Singapore signed a framework agreement on June 25 to develop a "Special Economic Zone" in the Indonesia islands of Batam, Bintan and Karimun. Major labor federations on June 19 cancelled earlier plans to hold a national bipartite meeting with employers at the end of June to discuss proposed revisions to Indonesia's labor law. Minister of Manpower and Transmigration Erman Suparno announced the same day the GOI would focus on establishing social guarantees for workers instead of amending the labor law. Minister of Trade Pangestu noted on June 19 that her ministry had compiled a list of ten priority sectors to guide Indonesia's participation in bilateral and multilateral trade negotiations. The Ministry of Industry said it expects USD 2.5 billion in new investment in Indonesia's electronic sector by 2009. The GOI signed agreements on May 29 with investors to build seven toll roads worth USD 1.4 billion. The Business Software Alliance, with support from the police, is investigating over 300 tips to its hotline of suspected end-user software piracy. End Summary.

Parliament Debates Draft Investment Law

¶2. Minister of Trade Mari Pangestu met with members of Parliamentary Commission VI on June 7 and June 22 to outline key provisions of the Government of Indonesia's (GOI) draft investment law. In the two meetings, Commission VI members asked questions or raised concerns about a number of provisions in the draft law, including the wisdom of moving from an investment approval to an investment registration regime and reorganizing the Investment Coordinating Board (BKPM) into an investment promotion agency. The MPs also raised concerns about providing national or non-discriminatory treatment for foreign investments and permitting the uninhibited repatriation of profits and capital. They urged the Minister to protect vulnerable industries through a clearly defined "negative list" and set up a system of investment incentives.

¶3. On June 22, Pangestu told the Commission VI members that

the new law would simplify and shorten procedures for establishing a new business by establishing online registration systems managed by regional Ministry of Justice offices. The draft law would provide foreign and domestic investments with equal treatment, with the exception of investments in sectors the GOI specifies in a negative list. She emphasized that under the draft law, the GOI would continue existing policies for repatriation of profits.

Foreign Investment Declines

¶4. The BKPM announced on June 17 that foreign investment approvals dropped to USD 3.66 billion from January to May 2006 from 4.87 billion during the same period in 2005, a decline of 33.1 percent. Meanwhile, domestic investment approvals for the first five months of 2006 rose to Rp 60.48 trillion (USD 6.6 billion) from Rp 35.18 trillion (USD 3.8 billion) during the same period in 2005, a 72 percent increase. BKPM also reported that foreign realized investment from January to May 2006 rose to USD 3.14 billion, a 5.2 percent increase from USD 2.98 billion in ¶2005. Metals, electronics, paper and printing, textiles, automotive and transportation, and the trade and repair sectors attracted the greatest investor interest.

¶5. Analysts have raised questions about the accuracy of BKPM data as a barometer of Indonesia's investment picture because the agency's data do not include the financial services or extractive industries sectors (oil, gas and mining). In addition, analysts have noted significant discrepancies between BKPM and Bank Indonesia investment data likely due to delays in BKPM field verification surveys. BKPM Chairman Muhammad Lutfi explained in June

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that the data discrepancies are in part due to the fact that BKPM figures include local investor equity and domestic loans in support of foreign investments.

Indonesia-Singapore SEZ Cooperation

¶6. Indonesian President Susilo Bambang Yudhoyono and Singaporean Prime Minister Lee Hsien Loong met in Batam on June 25 to witness the signing of a bilateral framework agreement to establish "Special Economic Zones" (SEZ) on the Indonesian islands of Batam, Bintan and Karimun. Yudhoyono expressed hope that the agreement would attract foreign investment to the islands by providing one-stop services that will reduce the high cost of doing business. Indonesia also hopes to benefit from Singapore's massive business network, as well as technological and promotional skills. Singapore, in return, will provide investment advice, help promote the three islands as manufacturing destinations, and provide capacity building for Indonesian officials and workers. According to GOI officials, the Batam framework will serve as a model for other planned SEZ's throughout the country.

Labor Law Reform Losing Steam?

¶7. At a June 19 meeting, representatives of Indonesia's largest labor federations reportedly decided to cancel plans to hold a "national bipartite meeting" with the Indonesia Employers Association (APINDO) in late June. The meeting had been planned to try to resolve differences over GOI plans to revise the country's labor laws. Investors have complained that restrictions in Indonesia's labor law, particularly provisions related to severance pay and contract workers, significantly deter new manufacturing investment in Indonesia. President Yudhoyono has instructed an independent academic team from five universities to study the issue and provide its recommendations. Separately, on June 19, Minister of Manpower and Transmigration Erman

Suparno reportedly said that the GOI was focusing its attention on establishing social guarantees for workers rather than amending the labor law (Law 13/2003). However, Suparno did not specifically state that the GOI had abandoned its stated plans to amend the labor law in 2006.

GOI Announces Ten Priority Products

¶8. On the sidelines of the annual congress of the Indonesian Economists Association (ISEI), Minister of Trade Mari Pangestu announced on June 19 that the GOI had prioritized ten economic sectors for further development. The list of priority products would guide and facilitate GOI positions at bilateral and multilateral trade negotiations. They are:

- Textiles and garments
- Electronics
- Automotive spare parts
- Cocoa
- Coffee
- Shrimps
- Crude palm oil
- Furniture
- Handicraft
- Shoes/footwear

GOI Targets USD 2.5 Billion Electronics Investment

¶9. Ministry of Industry Director of Electronics Abdul Wahid announced on June 19 that the GOI expects new investment in the electrical and electronics sectors to reach USD 2.5 billion by 2009. Although Indonesia's electronic industries are currently located primarily on Java and Batam Islands, Wahid noted that the GOI would seek to develop the industry in other areas such as Medan and Makassar. With an additional USD 2.5 billion in investment, Wahid said he expects the sector could directly employ another 150,000 workers. In 2005, Indonesia's exports of electrical and

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electronic products reached USD 7.38 billion and the sector employed 230,000 workers. Indonesia's main exports of electronic and electrical products include:

- Flat screen televisions, LCD 29 inch and above;
- Air conditioners;
- Washing machines; and
- Refrigerators.

Investors Sign Toll-Road Project Agreements

¶10. On May 29, the GOI signed agreements with six separate investors for 155 km of toll road projects worth an estimated Rp 12.7 trillion (USD 1.4 billion). The expressways will be located in Java and Sulawesi and construction will begin next year, according to the Ministry of Public Works. Investors hope the toll roads will be operational by 2009 or 2010.

Table 1: Toll Road Projects

Road	Length (km)	Investment (Rp trillion)	Investor
Cinere-Jagorawi	14.7	1.7	Translingkar Kita Jaya
Depok-Antasari	21.7	2.3	Citra Wasphutowa
Makassar (Section IV)	11.6	0.4	Toll Road Section 4

Kanci-Pejagan	34	2.1	Semesta Marga Karya
Pandaan-Malang	30	2.9	Setdco Intrinsict
Bogor Ring Road	11	1.6	Jasa Marga
Gempol-Pasuruan	32	1.8	Jasa Marga
TOTAL	155	12.7	

Hotline Receives Hundreds of Tips on End User Piracy

11. The Business Software Alliance (BSA) announced on May 15 that it is investigating numerous tips to its telephone hotline for reporting suspected end-user software piracy by private businesses, including foreign companies. According to one BSA official, the association has received 300 tips on companies using illegal software since it established the hotline in 2005, including 64 reports this year. BSA says it will cooperate with the Indonesia National Police in the coming months to raids some of the companies suspected of using illegal software. On June 6, BSA established a representative office in Jakarta.

Table 2: Indonesia Trade Performance Jan-May 2006:
(in USD billions)

	May 2006	May 2005	Pct YoY	2006 Jan- May	2005 Jan- May	Pct YoY
Exports	8.3	7.2	15.3	38.4	33.8	13.6
Oil and Gas	1.8	1.4	28.6	8.6	7.3	17.8
Non-oil and Gas	6.5	5.8	12.1	29.8	26.5	12.4
Imports	5.1	4.9	4.1	23.1	23.6	-2.1
Oil and Gas	1.7	1.2	41.7	6.8	6.6	3.0
Non-oil and Gas	3.4	3.7	-8.1	16.3	17.0	-4.1
Balance of Trade	3.2	2.3	39.1	15.3	10.2	50.0

Source: Central Bureau of Statistics (BPS)

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